Managing legitimacy following a crisis at an acquired subsidiary

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ABSTRACT

Through a textual analysis of publicly available data, we describe how Air New Zealand's strategic leaders managed legitimacy issues following a crisis event at its subsidiary, Ansett Australia. By viewing the transboundary and interconnected nature of a crisis (Boin & Lagadec, 2000), we explain how a crisis event at an acquired subsidiary led to questioning of the legitimacy gained due to the acquisition. Further, we suggest how a crisis at a subsidiary may result in different types of legitimacies of the parent firm being threatened. In such cases, organizational leaders may defend or extend their organization's legitimacy by engaging in a process of re-legitimization (Suchman, 1995), i.e., by providing a plausible account of the crisis and an appropriate response to the crisis. Findings from this case study reveal the nature of such an account, suggesting institutional theory and impression management theories can both be used to make sense of leaders' accounts. However, in analysing such accounts the case study examines the distinction between 'reality' and 'appearance' to highlight how verbal accounts can be ineffective and the constraints on organizational leaders to resolve the crisis. We conclude by explaining why grave legitimacy gaps made apparent due to the crisis did not force the parent firm to fail; but instead resulted in constraints on how it conducts its business.

Keywords: Crisis event, legitimacy, impression management, institutional theory, strategy practice

INTRODUCTION

> In April 2001, Air New Zealand experienced significant turbulence from a crisis event at Ansett Australia, its recently acquired subsidiary. Air New Zealand's takeover of Ansett Australia suddenly came under scrutiny from its multiple stakeholders (the Australian safety authority, its investors, its institutional investors, both national governments, its customers, its employees and from the general public) due to the crisis event. Not only was the top management's credibility as effective leaders in doubt, but the legitimacy of the decision to proactively purchase Ansett Australia was seriously questioned.

Organizational crises have been defined as 'low probability/high consequence events that threaten the most fundamental goals of the organization' (Weick, 1988:305). Scholars describe a crisis as 'a disruption that physically affects a system as whole and threatens its basic assumptions, its subjective sense of self, its existential core' (Pauchant & Mitroff, 1992). While the causes of the crises can differ, any crisis event is a threat to the organization's goals, market share, image, and symbolic structures such that it questions the very survival of the social system (Pauchant & Mitroff, 1992; Weick, 1993). Forwarding their contextual theory of leadership, Osborn *et al*. (2002) draw attention to the 'resultant threats to high priority goals outlined by the leaders and correspondingly little or no response time available for crisis response' (Osborn *et al*., 2002:802). Hence, crisis implies resource inadequacy in terms of time and other resources to manage the crisis (Hermann, 1963). Research in this area has focused on the management of perceptions of organizational legitimacy after a crisis, in the awareness that while it is an event over which management may have had little/no control, the presentation of a crisis is one aspect over which organizational leaders are likely to have considerable control (Fink, 1986). Prescriptive research has looked at message options available for image restoration after a crisis (Benoit, 1997). Focusing on the dilemmas of presenting corporate policy during a crisis, previous research explains how investors will respond to either accommodative or defensive presentations of corporate policy made during a crisis (Marcus & Goodman, 1991). The literature has also provided insights on how organizational spokespersons through verbal accounts may use impression management tactics (Goffman, 1959) to improve external perceptions of the organization following controversies arising from what an organization has done (Elsbach, 1994; Sutton & Callahan, 1987).

Thus, while we find research has explicitly recognised the threat to structures and relations due to a crisis event, there seems to be an implicit assumption that the legitimacy issues to be managed due to a crisis event are at the organization which experiences the crisis. However, in this paper we focus on legitimacy issues arising due to a crisis event at a subsidiary, a situation that could reveal new insights about the challenges of managing legitimacy. We are

specifically interested in addressing a situation in which the parent firm is unified with its larger external environment but experiences extensive problems due to the overseas subsidiary.

CONCEPTUAL BASIS OF THE STUDY

Crisis event and the legitimacy of a strategic acquisition

According to resource dependence theory, negotiating exchanges to the continuation of needed resources is the focus of much organizational action (Pfeffer & Salancik, 1978). Organizations meet or outperform market expectations by acquiring new and leveraging existing resources (Priem, 2007). A common means of obtaining new resources is through acquisition, as it can help the firm gain economies of scale and scope (Hitt *et al.*, 1996). In addition, a strategic acquisition can also be driven by legitimacy needs as it can provide different types of legitimacies for the firm (Dacin *et al.*, 2007). Three legitimacies have been highlighted: market legitimacy which maintains the firm's right to operate in specific markets (Yiu & Makino, 2002), relational legitimacy which enhances a firm's perceived worthiness as a strategic partner (Gomes-Casseres, 1996), and investment legitimacy which refers to the role relationships play in legitimating the worthiness of a firm's business activities in the eyes of investors and shareholders (Dacin *et al.*, 2007). Legitimacy, then, is a conferred status (Perrow, 1970) and, to the extent that it is lacking, may be viewed as a resource to be obtained from outside the organization (Dowling & Pfeffer, 1975). Hence as explained by Ashforth & Gibbs (1990), we can see an acquired subsidiary as a means of enhancing legitimation for the parent firm.

On the other hand, institutional theory explains organization actions as being driven by the desire of organizational actors to give a meaningful account of their actions in relation to its institutional environment (DiMaggio & Powell, 1983). An organization must be responsive to external demands and expectations in order to survive (Meyer & Rowan, 1977), implying economic actors seek legitimacy of their actions from the actors upon whom they depend for their physical, human, financial or reputation capital (Oliver, 1996). Legitimacy is gained not only from adhering to these institutional expectations but also from acting consistently with taken for granted norms (Oliver, 1991). By implication, organizations may project legitimacy by employing widely used and accepted practices (Powell & DiMaggio, 1991).

Through the extent that the actual or perceived behaviour of an organization departs from social values and norms held by significant stakeholders, its legitimacy is threatened (Dowling & Pfeffer, 1975) and a legitimacy gap may develop (Sethi, 1977). Such a legitimacy gap may arise out of new information that differs from the image of the

organization to this point (Bowles, 1991). For example, a socially-responsible firm may be exposed as 'exploitative' as opposed to 'serving' society. Similarly, a newly acquired subsidiary may be exposed as a crisis-prone organization (Pauchant & Mitroff, 1992). Such information can be made apparent by individual actions (e.g., whistle-blowers) or by an accidental, controversial or *crisis event*. As discussed by Marcus and Goodman (1991), the undesirable impact of such a crisis event may include losses in sales, production, investment opportunities and prestige; delays; and deterioration in relations with key constituents. In light of these impacts, we note that the 'problematic nature of legitimacy' (Ashforth & Gibbs, 1990) is likely to be become more apparent due to a crisis event. Further, due to its transboundary and interconnected nature (Boin & Lagadec, 2000), a crisis event at an acquired subsidiary can potentially question the legitimacy gained due to its acquisition by its parent firm, which may in turn result in different types of legitimacies of the parent firm being threatened.

In these circumstances, the effectiveness of an action or strategy as judged by a range of constituents (such as shareholders, investors, customers, suppliers) and public stakeholder groups (e.g., the government and other public communities) (Clarkson, 1995) may be reassessed, such that different constituents may view legitimacy idiosyncratically and divergently. For example, some firm constituents may now view the subsidiary as a hazard and may demand the parent firm divest from its investment (Wilson, 1980). In other words, these constituents may argue that the strategic acquisition can no longer yield the desired financial returns (Jensen & Ruback, 1983; Lubatkin, 1983). In contrast, other stakeholders whose own self-interest is tied to the survival of the subsidiary may argue that the firm has an obligation to help the subsidiary in crisis. Thus, we find that the parent firm is exposed to divergent demands from its constituents. Further, its ability to respond to the crisis is shaped by its ability to defend the legitimacy of its own action and also the actions of other stakeholders who play a key role in constructing and interpreting the legitimacy of the parent firm's actions. Such events that are a threat to an organization's legitimacy also constitute a threat to its leadership, as a leader serves as spokesperson and/or primary decision–maker responsible for justifying organization performance and practice to the various stakeholders (Salancik & Meindl, 1984; Elsbach, 1994).

Previous research on the individual and organizational responses to such legitimacy gaps builds on two theoretical understandings. First, impression management theorists have shown how leaders may manage their personal legitimacy (Leary & Kowalski, 1990) or organizational legitimacy (Elsbach & Sutton, 1992) by providing explanations of behaviour following image-threatening events. Likewise, institutional theorists have focused on how

organizations may project legitimacy by providing rational accounts after failures (Meyer & Rowan, 1977). Organizational leaders may, therefore, defend or extend their organization's legitimacy by engaging in a process of re-legitimization (Suchman, 1995). For example, a company's management can respond to a crisis with apologies and denials and announce reforms, introduce changes in procedures, and make efforts to tighten or loosen corporate discipline (Fisse & Braithwaite, 1983). Thus, the perspectives above suggest that providing a plausible account becomes even more urgent for strategic leaders during a crisis situation.

Indeed, as Gephart (1991) notes, drawing on the *'romance of leadership'* arguments, leaders are often selected out from the limited number of possible causes of misfortune. Organizational members tend to attribute (some might suggest even over-attribute) a high level of influence to leaders because they represent instantiations of personal causation that are clearly identified with a firm and appear to be more tractable than impersonal external forces existing in the firm's environment (Pfeffer & Salancik, 1978). Such sensemaking locates a strong belief amongst organizational members for the importance of leadership factors to the dysfunctioning of the organization (Meindl, 1990; Meindl *et al.*, 1985). Burdened due to this 'crisis of legitimacy', leaders face an urgency of a different kind. Such urgency is less about understanding the stages in the crisis or causes of a crisis, and more about image restoration. Specifically, the theory of image restoration discourse draws attention to the various message options available to corporate leaders to understand what a corporation can say when faced with a crisis (Benoit, 1997), which include preventative or restorative approaches. Further, research has highlighted that dramatic failure in organizations (e.g., Weick, 1979; Sutcliffe, 1994) is often closely associated with an escalation in commitment for a failed action (Staw, 1981). However, some researchers argue these attempts at image restoration are likely to include elements of 'internalization of failure' by leaders. For example, image restoration attempts by top managers must also suggest that outcomes were within their partial control (Salancik & Meindl, 1984). In other words, under crisis conditions both followers and leaders may attribute failed outcomes to 'leadership factors' by avoiding any reference to 'uncontrollable external forces'.

Case study

The study focuses "on the dynamics present within single settings" (Eisenhardt, 1989:534) and, attempts to examine "a contemporary phenomenon in its real life context" (Yin, 1981:59). Specifically, we study a major organizational crisis at Air New Zealand (Air NZ) during the period 1999-2001. Nearly 7 years after its privatization, Air NZ took an initial step towards becoming a regional player on the aviation scene. In 1996, Air NZ purchased 50% of Ansett Holdings, which owned Ansett-Australia the second largest domestic Australian

airline, and a direct competitor of Qantas Airways. In March 2000, when Singapore Airlines (SIA) began pursuing its strategy of expansion in the Australasian aviation sector and initiated negotiations with TNT to purchase the remaining 50% of Ansett Holdings, Air NZ leaders exercised pre-emptive rights and purchased the remaining 50% of Ansett Holdings Ltd. Hence, Air NZ became the sole owner of Ansett Australia. Air NZ's annual report 2000 explained the purchase of Ansett Australia using justifications that relate to legitimacy. Importantly, in positioning the purchase with the purpose of gaining ***investment legitimacy***, the report highlighted that revenue would escalate from NZ$3.7 billion to NZ$7.9 billion and aircraft numbers from 83 to 190. The report indicated that cost savings and synergies would improve pre-tax profits by up to A$200 million a year, phasing in over the period 2000-2003. A focus on other actors can help us understand how the Ansett purchase also increased Air NZ's ***relational legitimacy***. Indeed, the Ansett acquisition by Air NZ effectively scuttled Singapore Airline's Australasian expansion dreams. Singapore Airlines was compelled to pursue an indirect entry into this market. The cash rich Singapore Airlines was left with little option but to purchase 25% of Air NZ. However, a crisis event came to a head on April 13 2001. On this day, Air NZ was plunged into a crisis as it became apparent that Ansett's entire fleet needed to be replaced as its planes were not safe to fly without extensive maintenance. Our case explains how Air NZ's strategic leaders managed the legitimacy of Ansett following the crisis event and how they tried to legitimise their strategic decision to purchase Ansett in response to the failure of the acquisition. The case also identifies other contextual factors that needed to be considered while analysing the leaders' ability to manage the legitimacy of this crisis-prone subsidiary. These include the regulatory conditions to which Air NZ was subject, its shareholding structure and the ambitions of its majority shareholders. We present the analysis by highlighting the perspectives of key stakeholders (shareholders, engineers, institutional investors, government officials) focusing on the outcomes of the crisis and the role that the NZ government played in helping Air NZ survive the crisis at its subsidiary.

Data collection and Analysis

Our findings are based on textual analysis of a large set of publicly available data on Air NZ and its subsidiary Ansett Australia. Data collected included the official material issued by the airline and as reported by the media (references for quoted material are given in the endnotes). The official material included annual reports and other stock exchange announcements which explained the acquisition, defended the acquisition with reference to the crisis and announced the subsequent divestment. Media accounts were used as both a record of events and as an indicator of social evaluation of these events (Deephouse, 2000). Our collection comprises of business publications in New Zealand including some Australian media references. Air NZ texts chosen for analysis in this study include all articles published

between 1999 (since the time the decision to acquire Ansett-Australia was announced) and 2001 (the loss of the Australian subsidiary) in leading New Zealand daily newspapers, as indexed in a major database. We used these newspaper reports as social transmitters and constructors of meaning of organizational action to the stakeholders on whom the organization and its leaders depended for critical support and legitimation (Lamertz & Baum, 1998). Wherever possible, we accessed the original documents and reports rather than relying on how they had been utilised or paraphrased in other discussions of the Ansett crisis (such as case studies). As noted by Wicks (2001), retrospective analysis of this type of data is a suitable manner in which to study an organization crisis, because they report the diverse accounts of how various stakeholders interpreted the events and give the ability to access leader's accounts (Gephart, 1993). Our data analysis is based on the chronological reading of these multi-textual data. Key events in the case are described in terms of the legitimacy threats resulting from the crisis. In a concise re-telling, we analyse how Air NZ stakeholders: customers, employees, trade union members, aviation analysts, civil aviation safety authority interpreted the crisis and how the leaders tried to legitimise their strategic decision to purchase Ansett in response to the situation made apparent by the crisis. We also analyse how the leaders' institutional framework and the institutional field (consisting of the home and host governments and the institutional stakeholder, SIA) reduced their power and ultimately constrained the leaders' ability to defend the crisis-prone subsidiary. Therefore, our analysis is an exploration of how strategic leaders acquired, maintained and defended the legitimacy of the crisis-prone subsidiary.

ANALYSIS

The crisis

On 13 April 2001, the Civil Aviation Safety Authority (CASA) grounded 10 of Ansett's 767 200s during the busy Easter period. As inspectors checked the 10 grounded jets on 15 April 2001, it became evident that Ansett had waited until the last moment to repair planes and it regularly avoided maintenance work. Consequently, unable to accept Ansett Australia's assurances that the safety of its 767s could be maintained, CASA imposed a three-week deadline to get the 767s fixed or to close business. From the safety authority's perspective, the crisis was an outcome of the safety lapses at Ansett. However, there was an element of permanence to these safety issues as the grounding helped reveal the actual age of the Ansett fleet, with up to a billion dollars needed to replace Ansett's Boeing 767 fleet.[i] This backstage reality (Goffman, 1959), exposed due to the groundings, resulted in attempts by the stakeholders to understand the underlying reasons and factors that caused such an event to occur within Air NZ.

Stakeholder dissonance with leadership due to the crisis

Initially, much of the stakeholder sensemaking was directed at questioning the appropriateness of the leaders' original decision to purchase Ansett-Australia. The impending financial liability awaiting Air NZ and the fact that Air NZ had spent A$580 million for the purchase, guided their initial retrospective sensemaking of the crisis. For instance, the ambitious potential of the Ansett acquisition as visualised by the leaders in the 2000 annual report was recalled in the media reports.

> When Air New Zealand took over Ansett Australia in June 2000, it was claimed it would add more than $200 million to Air New Zealand's bottom line over three years.[ii] The plan put forward by the leadership included integrating the two airlines within 18 months and an expected profit before tax and interest of up to 250 million dollars.[iii]

This ambitious and optimistic vision forwarded by the leaders in the annual report had helped them acquire legitimacy for the purchase of Ansett, with Air NZ staking claim to competing successfully within and out of the Australian air travel market. But as stakeholders reconsidered the events preceding and following the crisis, they recalled that the management had been periodically alerted to problems at Ansett such as fatigued crews, loading errors and passengers without boarding passes.[iv] Having registered perceived à priori indicators to the crisis, the audience gradually shifted its attention to leader action. Such collective sensemaking illustrates the processes through which organizational members such as customers, engineers, and investors that were affected by the crisis worked to find acceptable grounds for the assignment of responsibility for the crisis (Brown, 2000; Gephart, 1993). This sensemaking by Air NZ stakeholders resulted in an ironical insight that the full purchase of Ansett was hardly strategic as it was unlikely to have satisfied the investment legitimacy criteria highlighted in its annual report (as the problems had existed at Ansett for some time).[v] Thus, stakeholders questioned the extent to which leaders appreciated the problems they would inherit:

> The bewildering thing is they have been involved in company since 1996 and they have had a very good notion of what the value of it was. But even despite the inside knowledge of the airline, they do appear to have significantly overpaid for buying the second half of Ansett.[vi]

As discussed by Podsakoff *et al.* (1990), we find the stakeholders' trust in their leaders' competence to be significantly weakening, as they questioned whether:

> Had Air New Zealand examined the state of Ansett aircraft and its maintenance records? It is strange that they would not be picked up by a company with Air New Zealand's reputation for maintenance.[vii]

Internalization of failure by the leaders

Consequently, in recognising the growing disillusionment of the stakeholders for their leadership, the senior managers of Air NZ attempted to dispel the allegations of ineptitude and ignorance about the crucial purchase criteria that were presented by the media. The following analysis shows the extent to which institutional actors distanced themselves from the wrongdoing and also reaffirmed adherence to key social values (Hearit, 1995). Highlighting the inherited nature of the problem, the chairman Sir Selwyn Cushing clarified that Air NZ had known most things about Ansett before buying the second half because it had held three seats on the Ansett board. In this way, he attempted to preserve a modicum of cognitive legitimacy by explaining the crisis event as a discrete event (Perrow, 1984). Indeed, his explanation aimed to preserve an otherwise supportive view of themselves as 'effective leaders' (Suchman, 1995). His explanations converted attributed 'ignorance' into 'known risk', and he attempted to maintain an 'illusion of control' as:

> [We] always knew there would be some hazards in the major integration process with Ansett, which involves 23,000 people, $8 million in takeover costs and 184 planes. Certain things were not as we liked. But we have been putting things right. Ansett's situation was very disappointing, but we are repairing it.[viii]

The leaders outlined a series of adjustive mechanisms to arrest the crisis. The mechanisms employed indicated that the crisis targeted by the leaders was the safety crisis. According to the leaders, changing to more efficient safety checks could rectify the inherited problems. Conveying his determination to re-establish assurance for the 'audience', on 14 April 2001 Air NZ CEO Gary Toomey announced plans to speed up the upgrading of the fleet:

> The Airline was determined to address CASA concerns and get its grounded planes back into service. […] that the quality of the practices and processes we have put in place justifies continued confidence, and to have Ansett emerge from this unhappy process as one of the safest airlines in the world.[ix]

In wake of such leader attempts at re-legitimization (Suchman, 1995), politicians and journalists responded that the intervention executed by the leaders was unlikely to be adequate or of little comfort to passengers who had booked for Easter. Further, they extended the crisis debate and pointed out that Air NZ leadership would need to overhaul more than Ansett's planes if its investment was not to become a disaster.[x] The daily newspaper The Press in its editorial highlighted:

> Ansett's reputation for safety has been certainly dented. This will take a huge marketing effort. Air New Zealand was recently voted the best carrier in the Pacific region. Its own prestige in the Pacific region will be affected by the presence of its subsidiary.[xi]

On April 17 2001, Air NZ issued a statement to the New Zealand stock exchange to highlight that the groundings had failed to disrupt the travel plans of Ansett passengers. Costs due to the disruption had been minimized by prompt action at all levels throughout the Air NZ–Ansett organization.[xii] In this way, Air NZ asserted that critics' claims were mere opinions and did not represent facts; thus bifurcating the previously unitary charge (Hearit, 1995). Leaders' response to criticism was shaped by their interest in preserving their market position (Post, 1978) as a 'world leader in aviation safety'. To that extent, their response also recognised the validity of the criticisms that the crisis had adversely damaged the Ansett brand name. CEO Gary Toomey announced plans to re-launch the Ansett brand. While recalling that Ansett Australia had previously been assessed as the second safest airline in the world, Gary Toomey proclaimed:

> Ansett would again emerge as a world leader in aviation safety. The flight renewal plan would be put to the Ansett-Air New Zealand board in July, and a bid for new aircraft put to Boeing or Airbus later in the year.[xiii]

Such efforts at re-legitimation were necessary to pacify some 1400 Air NZ engineering union members who feared Air NZ's reputation had been tarnished by the problems at Ansett, because of the perception that the two airlines had the same staff and maintenance procedures.[xiv] However, there were immediate optimistic reassurances from aviation analysts who explained that the brands hadn't been rolled into one which implied relatively few people knew that Air NZ owned Ansett.[xv] . Thus, we find business analysts as the believers and in-group helping to provide some 'illusion of controllability' of the crisis and subsequent issues (Czarniawska, 1997). However, the analysis revealed the inadequacy of such 'appearances'.

Inadequacy of such 'appearances'

While Air NZ leaders' announced plans for the fleet upgrade, the leaders required governmental approval for approaching Singapore Airlines for the required capital to execute their fleet upgrade. Ironically while leaders were responsible for the crisis, they were constrained to resolve the crisis. On May 12 2001, Air NZ's leaders presented their case to the New Zealand Government for lifting the foreign ownership cap. On 29 May 2001, Qantas approached Air NZ with a proposal to acquire a significant shareholding. However, Air NZ indicated it favoured SIA taking a 49% shareholding. Recognizing such contextual favourability (Dutton *et al.*, 2002) supporting the leaders' agenda, media reports constructed Singapore Airlines as a suitor with ideal qualities. For example, it was reported:

> Singapore Airlines had both the money and desire to own up to 49% of Air New Zealand. Indeed, from a balance sheet perspective, Singapore Airlines, with its $1.78 billion ($NZ2.43) billion in cash as of September

> 2000, could provide just the tonic the highly geared Air New Zealand needs.[xvi]

Such 'supportive' media reports assisted Air NZ leadership as the New Zealand Government's opposition to relaxation of foreign ownership criteria for the national airline was well-documented. Therefore, these 'influence tactics' were directed towards institutionalised values (Oliver, 1991) surrounding ownership of a national flag carrier airline. Indeed, in July 2001 Air NZ lodged formal submission to the NZ Government seeking the lifting of the current limit on its foreign ownership. Throughout August 2001, talks continued between Air NZ and the other parties involved in the proposed buy in, that is, SIA, Qantas and Brierley Investments (who provided the current Chairman of the Board and owned the 30% stake in Air NZ that was to be put on offer to the prospective buyer).

But as noted by Oliver (1991), institutional theory is also capable of explaining non-choice behaviour in the context of taken-for-granted norms and behaviour. Specifically, it draws attention to the causal impact of state, societal and cultural pressures, as opposed to market pressures and resource scarcity on organization behaviour (Oliver, 1991). In this case, this non-choice behaviour unfolded with the communication strategies used by the government authorities who built on the consensus that the purchase of the Ansett Australia had the hallmarks of a bad decision, whereas the core operation of Air NZ was good and profitable – it was the Australian subsidiary that had created the problem[xvii]. Government rhetoric also suggested that any redressal would be limited to the parent Air NZ as the most important outcome for New Zealand was to preserve the Air NZ brand and its global reach[xviii]. The institutional environment imposed significant pressure on the Air NZ leaders to justify their strategic action and they needed to defend its legitimacy with respect to institutional constituents and their expectations. The leaders recognised these boundaries by 'outlining the common interests' as conveyed in Government communication. They attempted to convince stakeholders by explaining that the future of the subsidiary Ansett Australia and the parent Air NZ were linked. Leading daily newspaper The Dominion reported CEO Gary Toomey's explanations:

> What is at stake is the future of Air New Zealand, not just the future of Ansett. We are talking about how we can sustain jobs for 9000 New Zealanders directly employed by Air New Zealand, and beyond that, the jobs generated by the $1.1 billion we spend purchasing goods and services in New Zealand each year.[xix]

But while Air NZ leaders claimed that the Singapore Airlines proposal served the common interests of the group, Government authorities were quick to clarify that the proposal did not safeguard the common interest of the group. In highlighting their involvement as guardians of

the 'Kiwi share', the Government announced that it would not approve Singapore Airlines' proposal because of concerns over Air NZ's foreign landing rights[xx].

On 6 September 2001, Singapore Airlines advised that it was no longer interested in acquiring new equity in Air NZ. Thus, Air NZ lost the relational legitimacy acquired due to the Ansett acquisition. The change in SIA's perception of the attractiveness of Air NZ as a strategic partner can be attributed to the financial crisis at Ansett and also to the NZ Government's continued opposition to relaxing the foreign ownership threshold for the national airline. In this way, Air NZ leaders were constrained in their ability to defend the legitimacy of Ansett by the actions of other players such as the NZ Government and its institutional investor, SIA.

Consequently, on 13 September 2001, Air NZ announced a net loss for the financial year to 30 June of NZ$1.425 billion, and attributed the loss to its Australian subsidiary, Ansett. On the next day, Ansett Australia was placed under receivership. On 15 September 2001, the New Zealand Government announced the re-capitalization of Air NZ by the injection of up to $885 million in a two-phase loan and equity.

DISCUSSION

Legitimacy for any strategic action is transacted between leaders and their stakeholders (Pfeffer & Salancik, 1978). Our case study describes how stakeholders are presented with an 'illusion of control', when the acquisition was planned (Jemison & Sitkin, 1986). The analysis provided support for previous research that, in gaining legitimacy for the strategic acquisition (investment and relational legitimacy in the Air NZ-Ansett case), key organizational actors frame their action so as to convince stakeholders that what will occur due to the purchase of a subsidiary is in line with broader logic of the action (Fligstein, 1997). Post crisis, stakeholder sensemaking of the crisis suggested that leaders had not pursued an effective course of action due to ineffective due diligence (Hitt *et al.*, 2001). Thus, the full purchase of Ansett was no longer perceived as strategic since it appeared to have not satisfied the investment legitimacy criteria highlighted in the annual report with problems existing at Ansett at the time of acquisition.[xxi] While previous research has suggested that a key source of legitimacy gaps may be changing societal expectations that result in a gradual awareness of objectionable matter (Sethi, 1977), this study, in contrast, showed how previously undetected or unrecognised conditions could precipitate a legitimacy gap triggered by a crisis event.

Subsequently, mirroring previous studies the analysis illustrated how leaders were framed as uncapable or having made mistakes (e.g., in a rationalistic frame) or behaving in a illegitimate way (when compared with a role-bound discourse) (Brown & Jones, 2000; Vaara, 2002).

Paralleling findings from impression management theories (Salancik & Meindl, 1984), our analysis highlighted that leaders likely need to 'internalise failure' to some extent in their response to the crisis. During a crisis situation, leaders are concerned with appearing to live up to the external standards of being confident and in control, which requires them to continue to keep up the performance (Goffman, 1959), even if this entails offering themselves as responsible and apologising. In addition, using institutional theories, the analysis described how leaders also pointed to the role-bound nature of their decision as a defence of their decision to purchase Ansett (Vaara, 2002). Here, the analysis highlighted how their commitment to their decision to purchase Ansett restricted their autonomy for action and their capacity to engage in re-interpretation of the acquisition decision. Indeed, this inability to reframe the crisis situation suggests a reduction in their power (Bachrach & Baratz, 1970). The analysis of this phase captures leaders' accommodative signals and their sensitivity to the valid concerns of the stakeholders (Marcus & Goodwin, 1991). It also describes how leaders promoted new 'images of managerial control' (Salancik & Meindl, 1984) by revealing plans to up-grade the fleet, co-operating with the CASA investigation, and therefore actively endeavoured to arrest the relational cleavage arising due to the crisis. Indeed, the crisis forced the Air NZ leaders to trade off their autonomy or discretion (Pfeffer & Salancik, 1978) of when to renew their fleet.

While Air NZ's compliance with CASA requirements had the potential to restore both legitimacy and economic viability (Oliver, 1991; Scott, 1987) to the Ansett purchase, the organizational leaders faced insurmountable constraints to effect this outcome. The analysis explained that Air NZ leadership could not independently resolve the crisis at Ansett, as they did not have the freedom to approach Singapore Airlines for the required funds to upgrade the aging fleet. Here, the analysis argued that the leaders' response was a concealment tactic (Oliver, 1991), as it avoided the fact that Air NZ did not have the funds to actualize the plans. From an institutional perspective, this distinction between appearance and reality is only a theoretically important dichotomy (Scott, 1983), as the appearance rather than the fact of conformity is assumed to be sufficient for the attainment of legitimacy. However, in analysing the content and the form of the verbal accounts, the inadequacy of such 'appearances' was revealed with the leaders defending the legitimacy of the strategic action by linking the subsidiary's survival with key characteristics of the parent firm. Consideration of the actions of other key stakeholders helps us understand why Air NZ was unable to defend successfully the legitimacy of its subsidiary. Neither the NZ Government nor the Australian Government were ready to help relieve the crisis at Ansett (e.g., the former did not relax the foreign ownership threshold criteria for the national airline even though Air NZ was in desperate need for additional funds to respond to the crisis). In addition, the liability associated with Ansett's

circumstances made Air NZ no longer an attractive strategic partner and SIA withdrew its proposal to acquire new equity in Air NZ. Subsequent to this stakeholder decision, Air NZ lost relational legitimacy with respect to its strategic partner, SIA. Therefore, the case clarifies the leaders' ability to legitimize their decision to acquire the subsidiary but reveals their inability to defend the crisis-prone subsidiary by highlighting the constraining role of the institutional field (consisting of the home and the host governments, and the institutional stakeholders, SIA and Brierley Investments Ltd). The case also holds evidence that Air NZ may have lost market legitimacy following Ansett's failure, with its ability to successfully pursue expansion in the Australian domestic market now potentially indefinitely on hold.

Finally, the case illustrates how a failed acquisition places the responsibility of re-legitimation with and on senior managers, who are caught in the paradox of defending their original decision and assuming some of the blame for the crisis occurring. Whereas Elsbach (1994:84) notes that effective verbal accounts are formed by linking "acknowledging account that refer to normative structures, procedures or goals", following a failed acquisition finding suitable institutional referents appears difficult (since senior managers have the discretion to choose suitable organizational arrangements). Thus, it is likely that senior managers will simply be accepting fault for the decision and so, if the failure is substantial enough, are almost certainly faced with resigning or being dismissed. In the Air NZ case, Gary Toomey was caught in this paradox even though he joined Air NZ in the period directly following the Ansett acquisition. The combination of the impression management perspective (which helps to explain the active individual-level view of the management of legitimacy) with the institutional view (presenting the more passive organisational-level view of managing legitimacy) provides an important but incomplete understanding of the challenges of managing legitimacy. What our analysis highlights is that Air NZ's re-capitalization by the New Zealand Government coupled with the subsequent changes in Air NZ's leadership likely represented the only viable option for the survival of New Zealand's national airline. This suggests a legitimacy gap is an instrumental as opposed to a terminal contract, such that a crisis does not force the corporation to close; instead, it typically results in constraints on and changes in how it conducts its future business (Epstein & Votaw, 1978). In this way, another insight from this case study departs from previous research which has highlighted crises resulting in superficial change to core values (Elliot & Smith, 2006) such that organizations remain crisis prone (Pauchant & Mitroff, 1988). In this particular case, key structural changes (e.g., recapitalization of a national airline by a government) provided a permanent safety net for an organization that may otherwise become crisis prone.

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